

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company d/b/a Unitil
Docket No: D.T.E. 04-48
Record Requests from August 17, 2004 Hearing

Request No. RR-AG-1

Please provide the restructuring plan and supplemental documents that support the \$2.3 million cost savings estimate on page 12 of the 2002 Unitil Corp. Annual Report to Shareholders (Exhibit AG-5).

Response: The Unitil 2003 reorganization plan is attached as: Attachment RR-AG-1(1), pp.1-7.

The reorganization was first considered in November 2002 in the context of the 2003 budgeting process and the announced plans of two executives, President Michael Dalton and Chief Financial Officer, Anthony Baratta to retire in 2003.

In particular, these planned retirements in 2003 provided the initial impetus for a leadership transition and reorganization of Unitil's utility distribution operations along functional rather than geographic lines in an effort to bring a consistent and disciplined pursuit of excellence to our utility operations. In addition, the reorganization plan was designed to allow Unitil's utility affiliates to continue to provide reliable and quality services at projected rate and revenue levels and at the same time respond to significantly increasing cost pressures evidenced during the budgeting process. The preliminary budget results for 2003 projected significant cost increases in areas such as employee health and welfare benefits, insurance premiums, and capital expenditure programs and interest expense. The reorganization was intended to streamline future utility distribution operations and to focus on implementing best practices on a consistent basis across Unitil's distribution systems in both New Hampshire and Massachusetts. As a result of the retirements and the rest of the reorganization plan, the Company reduced a number of existing and unfilled positions, with a few new positions to be filled in the process.

Attachment RR-AG-1(1) provides the key terms of the reorganization plan. The reorganization plan was presented to the Board of Directors on December 12, 2002. Upon receiving approval of the Board of Directors on December 12, 2002 as shown in the attachment, the Company began implementation of the plan in January, 2003.

The Company is also providing herewith Attachment RR-AG-1(2) which supports the annual cash savings estimate due to the reorganization of \$2.3 million which is referred to in the 2002 Unitil Corp. Annual report to Shareholders [published on March 28, 2003]. On Attachment RR-AG-1(2), the Company provides an estimate of the annual cash savings to be realized in 2004 and beyond by FG&E

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company d/b/a Unitil
Docket No: D.T.E. 04-48
Record Requests from August 17, 2004 Hearing

due to the reorganization, including an estimated savings in utility operating expenses of \$498,693 to be realized once the reorganization costs have been incurred. Also, on Attachment RR-AG-1(2), the Company provides the reorganization costs incurred by FG&E in 2003 to implement the reorganization plan of \$622,885. From a budgeting perspective, once the Company reached the post-reorganization period, in 2004 for example, the cost savings from the reorganization would be realized to offset the increasing cost pressures, like employee health care cost inflation, that the Company had been (and still is) experiencing.

Person Responsible: Laurence M. Brock

Date: August 19, 2004